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Is Owning a Home Still a Workable Expectation?

Chester Smolski

Is owning a home still a workable expectation?

By Chester E. Smolski

Part of the American Dream is to own and occupy one's own home, and, in this rich country, most people have attained that goal. But the concern today is that potential home owners, especially those taking this eventful step for the first time, are unable to make this dream a reality because of the high cost of housing in this part of the country. What will be the likelihood in the near future that the young potential home buyers reach this important life goal?

To look into the future means a look back at the past to determine the characteristics of housing, the conditions that had an effect on that housing and the resultant ownership patterns.

In March of 1987 the US Census Bureau recorded a significant housing event: The number of housing units in the nation had reached 100 million. The likelihood was that it was a single-family unit built in the South because two-thirds of units built are single family and since 1980 one-half of these have been built in the South. The value of these 100 million units is estimated at $5 trillion.

Taking a housing census for the first time in 1940, the Census Bureau determined that home-ownership rates stood at 43.6 percent, the median home value was $2938, and there were 3.28 people in a median household. Of the 37.3 million housing units, 10.7 million had no running water, 9.3 million kept their food on ice, and the average house had just over one room per person. At this time the average factory worker was paid 67 cents per hour.

Change & improvement

The dramatic change and improvement in housing quantity and quality in the nation is reflected in the 1987 estimate of a 64 percent rate of home ownership, a median home value of $65,000 and an average of 2.67 persons per household. Of the 100 million housing units, 19 out of 20 have television, six out of 10 have some kind of air conditioning, and the average house has more than two rooms per person. In 1987, the average factory worker made $9.18 per hour.

The 1940 data reflected the end of the Great Depression, while the current numbers go back to a postwar time that is now referred to as a "G.I. generation," and with it came opportunities for college, home buying and, subsequently, babies. This affected the types of housing units: In 1960, 75 percent of all housing units were single family, detached, while in 1987, the proportion of these units dropped to 67 percent.

Reflecting a "baby bust" era and the growth of single-person households over this time period, the number of housing units in complexes of five or more (apartments and condominiums) grew from 10.6 percent of all 53 million occupied units in 1960 to 16.2 percent of 89.7 million in 1987. The number of mobile or manufactured homes also increased, from 1.4 in 1960 to 4.4 percent in 1987.

In the past one and one-half generations, housing has markedly improved for most Americans, including Rhode Islanders, but the past three years have brought nation-lending house appreciations to such a level in the local area that there are now severe housing problems.

Northeast region

The Northeast region consists of the six New England states and the three Mid-Atlantic states of New York, New Jersey and Pennsylvania. These nine states comprise 21 percent of the US population and, not surprisingly, contain 21 percent of all housing units. And today, these housing units are the most expensive in the nation.

It was not always so. Twenty years ago the West had the most expensive housing, but in 1987 the median price of a house in the Northeast had risen to $93,844, well above the $82,285 for the West.

Another way to illustrate the escalating prices of the Northeast is to compare median house prices of the region with the national average. The Northeast exceeded the nation in median house prices by $1267 in 1967; $4437 in 1972; $2200 in 1977; $1999 in 1982; and by an astonishing $26,958 in 1987.

The recently released figures of house prices by metropolitan areas for the first quarter of 1988 placed four of the top-10 most expensive areas in the Northeast: New York, Boston, Hartford and Providence. And Providence, which led the nation in percentage increase over the past two years, still came in at a hefty 19.9 percent increase over the first quarter of 1987, ranking it the third-highest increase in the country, after Washington, D.C., and Hartford.

Above national average

The $123,300 median price for housing in the Providence metropolitan area (which, incidentally, covers most of the state) is 40 percent above the national average of $88,100. With income levels at approximately the national average, Rhode Islanders have a housing affordability gap 13 percent below the amount needed to buy a home.

The ability to buy homes must be considered in terms of the various age groups and their levels of home ownership. For example, in 1980 the rate of home ownership in the Northeast was 60.7 percent and 58.8 percent in Rhode Island. (A highly urbanized area and a transient military presence help explain the larger number of rentals and resultant lower owner-occupancy rate for the state.) A Harvard University study estimates the home-ownership rate for the Northeast at 61.4 percent in 1987 (data for the state will not be available until the 1990 census), slightly below the national average of 64 percent. For the nation, all age groups 40 and older have owner-occupancy rates higher than the Northeast and national figures, reaching as high as 80.8 percent for the 55- to 65-year-old group.

So the problem is with buyers under the age of 40, whose rate of home ownership is lower than the average for the region and the nation. Certainly it is true that younger people are not expected to have the same levels of home ownership as are older persons because of generally lower incomes, but the disturbing aspect of these rates is that they have gone down over the past 15 years.

For example, in 1973, 43.6 percent of the group aged 25 to 29-years-old owned their own home. But by 1987 the rate had been reduced to 35.9 percent. This decline is true for all ages below 40.

The Harvard study explains the problem well: "The decline in home ownership is remarkable for several reasons. First, it occurred during one of the most sustained and vigorous housing recoveries on record. Second, it has reduced the nation's home-ownership rate to its lowest level in over 15 years. Third, lower home-ownership rates for young adults are found in all regions of the country, not just the high-cost Northeast or West."

Future not promising

Unfortunately, the immediate future at the local level does not look too promising for the young, first-time home buyer. Rhode Island Housing and Mortgage Finance Corp. has provided help to more than 33,000 such buyers, and some help is still available from that group. But problems of homelessness, the end of federal guarantees on housing for low income persons that will cause many subsidized units to go on to market rents and additional rent increases for that sizable group of people that do not own homes means that solving the problem of first-time home buyers will be low priority.

The problem of attaining the American Dream of home ownership is only part of a much bigger housing problem that, in itself, is bigger than the local or regional area; it is a national problem that needs to be addressed at that level.

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